

Executive Summary

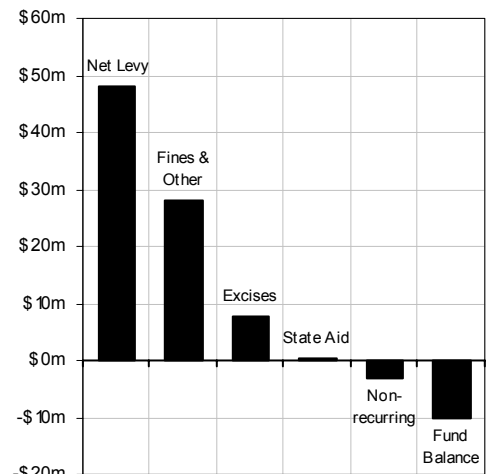
INTRODUCTION

The Fiscal Year 2005 (FY05) Budget of \$1.923 billion is 3.8 percent or \$70.9 million greater than Fiscal Year 2004 (FY04). Although this budget represents a return to growth after last year's budget decrease, FY05 will be another difficult year. As rising costs outpace revenue growth, we must continue to explore ways to restructure government not only to be more efficient, but also to create new opportunities for service improvements. Despite the fiscal challenges that we face, this budget reflects the City's continued commitment to provide essential municipal services while maintaining the City's sound financial footing.

This year's Five Year Capital Plan totals \$1.1 billion and includes \$94 million in new FY05 authorizations. Boston's Five Year Capital Plan continues to be an investment program for the City's future. This year's plan is being rolled out with a new umbrella title Cities are Neighborhoods (CAN). The new campaign, "Together, We CAN" reinforces the idea that Cities are neighborhoods and that the capital plan is a strategic tool shaped by many hands and designed to enhance the livability of a city that at its core draws strength from its neighborhoods.

Change in Resources and Expenditures

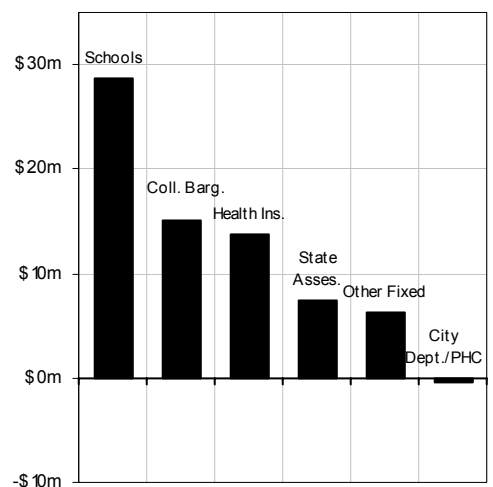
The FY 05 budget reflects an increase of \$70.9 million or 3.8 percent. The majority of the increase is due to continued growth in the City's largest revenue source, property tax, which reflects a 4.6 percent net increase for FY05. State aid is expected to be stagnant for Fiscal Year 2005. State aid is the second largest source of revenue for the City and therefore plays a critical role in determining available resources. When State aid is combined with the substantial increase in Charter School Tuition, which is now accounted for as a State Assessment (expenditure), State Aid actually decreases.



FY05 Sources of Revenue Change
Figure 1

Other economically sensitive revenue streams, such as excise taxes and interest on investments, show recovery from the FY04 Budget. Available revenues provide the basis for planning the FY05 appropriations and fixed costs.

The City budget, for a second year in a row, assumes an appropriation of Budgetary Fund Balance. Also referred to as "free cash," this item



FY05 Sources of Expenditure Change
Figure 2

is most simply described as the expendable portion of Undesignated Fund Balance, which must be state certified. While using reserves may be a necessity during these challenging fiscal times, the City needs to be ever vigilant to avoid committing this one-time source of revenue to address ongoing operating expenses. As the City uses these funds prudently over a period of several financially difficult years, we must recognize that it will require years, even decades, of significant revenue growth in tandem with reasonable expenditure growth before reserves are replenished. It is expected that \$15 million from budgetary fund balance will be necessary in FY05. Figure 1 illustrates the changes in revenue for the FY05 Budget.

On the expenditure side, the FY05 Budget reflects a 3.9 percent or \$57.2 million increase for appropriations and a 3.6 percent or \$13.7 million increase in fixed costs (pensions, debt service, state assessments and Suffolk County sheriff) for a total expenditure increase of \$70.9 million (Figure 2). Health insurance costs continue to drive City expenditures with double-digit growth rates. The estimated impact of fair collective bargaining increases based on what the City can afford is included as a separate reserve in FY05 appropriations as well as in the appropriation for the School Department. Fixed cost increases include the impact of the early retirement incentive of October, 2002. A detailed discussion of the City's revenues and expenditures can be found in the Summary Budget chapter of this volume.

Boston's Economy

The Boston economy drives the economies of Massachusetts and New England. The City usually generates nearly one-quarter of Massachusetts' annual economic output. In the past, the City has lead the state and region both into, and out of, recessions. With the United States emerging from a recession and controlling the growing urban threat of terrorism, now a priority of all governments, the City will begin seeing signs of economic growth that will once again stimulate the larger economies that surround it into economic expansion.

The consumer confidence of Bostonians and Americans alike, has kept the real estate market

strong and auto sales at record levels, and is now beginning to improve financial markets, increase investment, and create jobs. Many of these improving economic conditions are in Boston's biggest economic sectors. The outlook for the state and regional economies improves as Boston gets stronger.

The City's history of balanced budgets, prudent fiscal policies, and a conservatively structured debt with manageable future borrowing plans continues to serve the City well. In February 2004, Standard & Poor's Rating Service upgraded Boston's bond rating from AA- to AA, citing the City's focus on budgetary control and vigilant oversight as reasons for successfully weathering state aid reductions and the effects of the national recession. This rating is now consistent with Moody's Investors Service at Aa2, the City's highest bond rating. Fitch Ratings rates the City's debt AA-. A bond rating is a statement of credit quality and is analyzed when determining the interest rate that should be paid for a municipality's bonds. A higher bond rating translates into real dollar savings for the City.

The high priority City management places on carefully implementing sound fiscal policies and continuing to exercise strong fiscal discipline ensures that the slow growing economy will not affect the City's ability to preserve budgetary balance and maintain services.

FY05 - Budget Process

Boston integrates goal setting, program budgeting, monthly performance reporting and financial tracking into a cycle of continuous planning and review.

The City has taken many steps over the last three fiscal years to adjust to fiscal change. Through controlled hiring and attrition, the City's workforce is down 1,523, or 8.7%, full-time equivalents between January 2002 and January 2004.

Thoughtful restructuring of government will continue in order to mitigate the impacts to municipal services during these challenging times.

A more detailed discussion can be found in the Summary Budget chapter.

FY05 Decisions: Continuing the Momentum

Create the Office of the Arts and Cultural Development

Merge the Office of Cultural Affairs and Office of Special Events, Tourism & Film to better align cultural activities to gain efficiency

Continue to Refine Streets, Transportation & Sanitation Structure

Following up on this year's effort to review the functional overlap between Public Works and Transportation, 3 areas have been identified for consolidation within the coming year: pavement markings, traffic signals and street lights

Continue Boston Centers for Youth & Families (BCYF) Regionalization Model

Formalize existing alliances and further enrich neighborhood building goals by piloting 2 community coordinated clusters, represented by community centers, for-profit businesses, not-for-profit agencies, faith based groups and residents organized around key initiatives

Expand Early Education Programs

Expansion of early childhood programs at the Early Learning Center North and Lee Academy

Form New Organization for After-School Sector

Combine public and private resources to strengthen and expand after-school opportunities for Boston's students by merging the Mayor's 2:00 to 6:00 After-School Initiative with Boston's After-School for All Partnership

Launch a BCYF Universal Membership Campaign

Provide all community center members with a BCYF universal membership card allowing access to all facilities citywide in order to enhance memberships and bridge neighborhoods gaps

Establish the City Office of Homeland Security

Coordinate and direct Boston's inter-departmental and multi-jurisdictional homeland security activities

Support Neighborhoods Organizing (NO) Against Drugs

Increase treatment options and fund grass-roots efforts to increase prevention and advocacy

Pilot a Prescription Drug Importation Program

Contract for a pilot program with a supplemental mail service vendor to provide specific, name brand prescription drugs under limited, controlled, and strictly voluntary circumstances

Preserve Commitment to Affordable Housing

Continue to innovate in the area of housing by building on the best of what has been done in the past and evolving to meet the challenges that come with Boston's changing housing market

Consolidate Building System Management

Transfer responsibility and resources for BCYF preventative maintenance and repair of mechanical systems and structures to Property and Construction Management

Improve Downtown Connections with the Mayor's Greenway Crossroads Initiative

Multi-year capital program of street improvements that will improve connections among the neighborhoods surrounding the Rose Kennedy Greenway

Coordinate Neighborhood Priorities

Neighborhood Response Teams represent a cross-departmental, coordinated effort to improve the provision of basis services by utilizing new communication forums to address neighborhood specific issues

Continue the Boston Shines Campaign

Harness the power of teamwork, including City and public agencies, private organizations, universities and individuals to keep our neighborhoods clean

Increase Access for Small, Local, Minority and Women Businesses

Implement new policy directive and administrative procedures for accurate measures of policy results

CONTINUING THE MOMENTUM

The Mayor's reputation for getting the job done continues to serve the City well. Among his priorities are providing every child with a quality education, creating affordable housing, reducing crime, revitalizing Boston's neighborhoods and promoting a healthy lifestyle for all City residents.

The City is poised in the year ahead to further innovate in the areas of housing, education, youth programming, health care, public safety and basic services. The City continues to move forward and creatively address current and emerging needs despite constrained resources. It is important to remember that restructuring government is an iterative process that overlaps budget cycles. The table below provides an outline of decisions included in the FY05 Budget that will better serve all who live and work in Boston in these challenging fiscal times.

Additional information can be found in the Summary Budget and the FY05 Budget and Performance Goals chapters.

Budget Document Structure

The Operating Budget for FY05 and Five Year Capital Plan for FY05-09 is presented in three volumes.

Volume I is an overview of the City's financial position and policy direction.

Volumes II and III, which are organized by cabinet, present the budget detail for each department's operating budget and capital projects. Please refer to the chapter on Budget Organization and Glossary for an illustration of the City's organizational chart.

The City's Budget is built at the program level for each department, which is the basis for budget planning. However, line item budget detail is only provided in this budget document at the department level. Program line item detail is available upon request.

In addition to program budgets, Volumes II and III provide a mission statement, key objectives, as well as past and promised performance levels for each departmental program. For those departments with capital projects, a project profile is provided for every capital project, which includes authorization information as well as planned spending levels.

Definitions of the terms used throughout the budget document are presented in the glossary, which can be found in the chapter titled Budget Organization and Glossary.

Technical Note

The City of Boston's combined FY05 Budget and FY05-FY09 Capital Plan was published using Microsoft Word 2000. Graphics were generated using Microsoft Excel 2000. Hyperion Pillar 5.1, and Microsoft Access 97 were used for data management and analysis.

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